Report on the first nine months of 2018

1 January to 30 September

ADLER
ALLES PASST

KEY FIGURES

		9M 2018	9M 2017	Change absolute	Change relative	Q3 2018	Q3 2017	Change absolute	Change relative
Income statement									
Revenue	**€ million**	**360.4**	**374.2**	**−13.8**	**−3.7 %**	**117.3**	**120.2**	**−2.9**	**−2.4 %**
EBITDA	**€ million**	**−2.4**	**6.6**	**−9.0**	**–**	**−2.4**	**−3.6**	**1.2**	**33.3 %**
EBITDA margin		−0.7 %	1.8 %	−2.5 PP		−2.0 %	−3.0 %	1.0 PP	
EBIT	**€ million**	**−14.7**	**−5.7**	**−9.0**	**>−100 %**	**−6.4**	**−7.6**	**1.2**	**15.8 %**
EBIT margin		−4.1 %	−1.5 %	−2.6 PP		−5.5 %	−6.3 %	0.9 PP	
Consolidated net loss	**€ million**	**−14.7**	**−7.0**	**−7.7**	**>−100 %**	**−5.7**	**−6.3**	**0.6**	**9.5 %**
Per-share figures									
Earnings per share	€	−0.80	−0.38	−0.42	>−100 %	−0.31	−0.34	0.03	8.8 %
Cash flows									
Cash flows from operating activities	**€ million**	−2.5	8.3	−10.8	–	−7.0	−0.3	−6.7	>−100%
Cash flows from investing activities	**€ million**	−3.9	−1.8	−2.1	>−100 %	−1.4	−1.2	−0.2	−16.7 %
Free cash flow	**€ million**	−6.4	6.4	−12.8	>−100 %	−8.4	−1.6	−6.8	>−100 %

		30/9/2018	31/12/2017	Change absolute	Change relative
Financial position					
Total assets	**€ million**	247.0	241.1	5.9	2.4 %
Equity	**€ million**	84.2	100.0	−15.8	−15.8 %
Equity ratio		34.1 %	41.5 %	−7.4 PP	
Debt/equity ratio		1.93	1.41		

		30/9/2018	30/9/2017	Change absolute	Change relative
Employees					
Employees	Number	3,800	3,821	−21	−0.1 %
Stores					
Stores	Number	179	184	−5	−2.7 %

FINANCIAL CALENDAR

24–27 November 2018	German Equity Forum, Frankfurt
14 March 2019	Annual report 2018
7 May 2019	Report on the first quarter of 2019
8 May 2019	General Annual Meeting
1 August 2019	Report on the first half year of 2019
7 November 2019	Report on the first nine months of 2019

INTERIM GROUP MANAGEMENT REPORT AS AT 30 SEPTEMBER 2018

KEY FACTS 3rd QUARTER

- Sales decline limited to 2.4 % in the light of the extraordinarily hot and long summer and difficult overall market environment
- Gross profit margin stable at 50.3 % in spite of revenue decline; improvement from 52.1 % to 53.0 % in the 9-month-period
- Despite negative non-recurring effects, other operating expenses down 9.0 % due to efficiency improvements
- At € 47.5 million, cash position significantly above prior-year figure of € 36.6 million
- Annual targets for 2018 adjusted downward

ECONOMIC SITUATION & BUSINESS DEVELOPMENT

Germany is the ADLER Group's most important market. As at 30 September 2018, 151 of its in total 179 stores were located here. The Group had another 23 ADLER stores in Austria, two in Switzerland and three in Luxembourg as at the end of the reporting period.

According to the Joint Economic Forecast of leading German economic research institutes (Gemeinschaftsdiagnose führender deutscher Wirtschaftsinstitute), the strength of Germany's economic upturn has let up. The project group attributes this to the weaker demand from abroad in particular, as well as the shortage of skilled labour, which has created bottlenecks in production. It also contends that new regulations in the automotive industry and the resulting sales declines have additionally slowed GDP growth. With this in mind, the research institutes lowered their growth forecast for 2018 from 2.2 %, issued in the spring, to now 1.7 %.

Consumer sentiment has also deteriorated. By surveying 2,000 people every month on their income expectations, propensity to spend and economic prospects, the market research institute GfK determined that the consumer climate worsened in July and August despite the sound economic situation overall. GfK anticipates further deterioration for the month of September, as well.

As for Austria, the Austrian Institute of Economic Research (WIFO) likewise believes that growth has peaked, but that the momentum has only seen a slight drop so far compared to other countries in the euro area. It is forecasting 3.0 % growth for the full year of 2018 after forecasting 3.2 % growth in June.

The OECD is forecasting a 3.0 % GDP increase for Switzerland and a 4.0 % rise for Luxembourg.

THE ENVIRONMENT FOR THE GERMAN TEXTILE RETAIL INDUSTRY

Germany's textile retail industry suffered from declining revenue again in the third quarter. Participants in the survey panel conducted by the industry magazine TextilWirtschaft reported improved revenue of 3% in the month of July only, compared to the weak figure specified for the same month in 2017 (–8%). By contrast, declines were reported in August (–2%) and September (–13%) after an unusually sound rise of 20% in September 2017.

Accordingly, there was a year-on-year improvement in revenue for a total of three months during the nine-month period, while revenue fell short of the prior-year figure in five months. Those surveyed reported no change in June.

DEVELOPMENT AND ANALYSIS OF REVENUE

The ADLER Group total revenue under IFRS amounted to €360.4 million in the first nine months of 2018, down 3.7% year on year (9M 2017: €374.2 million).

The like-for-like decrease was a slightly lower at 3.1%.

Stores in Schwäbisch Gmünd, Dillenburg, Kulmbach and Stendal were closed in the reporting period. A new store was opened in Graz-Liebenau, Austria. This brought the total number of ADLER stores to 179 as at the end of the reporting period (30 September 2017: 184), with 151 in Germany, 23 in Austria, three in Luxembourg and two in Switzerland.

FINANCIAL PERFORMANCE

ADLER significantly cut its cost of materials by 5.5% in the nine-month period, from €179.3 million to €169.4 million. This was owed to the systematic optimisation of purchasing volumes based on expected revenue. The decrease was disproportionately high compared to revenue, thus limiting the decline in gross profit to 2.0%. Gross profit amounted to €191.0 million after €194.9 million in the nine months of 2017. The gross profit margin thus improved to 53.0% (9M 2017: 52.1%).

Personnel expenses in the reporting period rose marginally to €74.1 million (9M 2017: €73.1 million), in particular as a result of increases in wages, salaries and benefits, and the reinstatement of holiday pay.

As at the end of the reporting period, other operating expenses totalled €123.6 million, thereby falling €4.0 million short of the prior-year figure (9M 2017: €127.6 million). Consulting fees largely in connection with the ADLER Group's strategic realignment and the implementation of the new logistics service provider Meyer & Meyer were €2.0 million higher and weighed on the bottom line. This cost increase was offset by savings from various measures aimed at improving efficiency: despite the extensive activities carried out for the ADLER Group's 70th anniversary, marketing costs were reduced from €35.2 million to €32.3 million as the Group optimised marketing measures with respect to efficiency. Maintenance and modernisation expenses (€8.8 million) declined by €0.9 million and building expenditures also decreased slightly by €0.1 million to €51.9 million. Other expenses, at €8.7 million, were down €0.5 million year on year.

In the reporting period, ADLER continued to work consistently on cutting costs in purchasing and logistics as well as on optimising its operating processes. However, earnings were not fully able to stem the decline in revenue. Earnings before interest, taxes, depreciation and amortisation (EBITDA) fell from €6.6 million in the first nine months of 2017 to €−2.4 million in the same period of 2018. The drop is much less pronounced when looking at non-recurring effects resulting in 2017 and 2018 from real estate sales, restructuring measures and expenses arising from the implementation of the ADLER 2020 Strategy. For instance, the adjusted figures amounted to €0.2 million for the first nine months of 2018 and €1.6 million for 2017.

Depreciation, amortisation and write-downs were up marginally year on year at €12.4 million. This includes €0.1 million in write-offs on property, plant and equipment from stores that were closed or have yet to be closed in the year under review.

EBIT amounted to €−14.7 million in the first nine months of 2018 after €−5.7 million in the same period of 2017. Net finance costs improved slightly by €0.2 million to €−3.8 million (9M 2017: €−4.0 million).

The drop in revenue caused earnings before taxes (EBT) to decrease from €−9.7 million in the first nine months of 2017 to the current figure of €−18.5 million. As is typical of ADLER's business model, the Group reported a consolidated net loss totalling €−14.7 million for the first nine months of the year (9M 2017: €−7.0 million). The result is earnings per share of €−0.80 (based on 18,510,000 no-par value shares) compared to a figure of €−0.38 in the same period of 2017.

QUARTERLY COMPARISON

Against the backdrop of the third quarter proving tough for the entire industry, revenue under IFRS declined by 2.4%, from €120.2 million in Q3 2017 to €117.3 million. Like-for-like revenue decreased by only 1.3%.

The cost of materials was cut further in Q3 2018 by 2.3% to €58.3 million (Q3 2017: €59.7 million). At €59.0 million, gross profit was down year on year (Q3 2017: €60.4 million); the gross profit margin remained stable at 50.3%.

Personnel expenses increased by 4.8% in Q3 2018 from €23.1 million to €24.2 million, largely as a result of increases in wages, salaries and benefits, and the reinstatement of holiday pay.

Cost savings had a significant impact on other operating expenses, which were reduced by 9.0% from €42.2 million to €38.4 million.

At €−2.4 million, reported EBITDA well exceeded the prior-year figure of €−3.6 million. After adjusting for various non-recurring effects, this even improved from €−2.4 million to €−1.6 million.

Depreciation, amortisation and write-downs remained exactly the same year on year at €4.0 million. This meant a rise in earnings before interest and taxes (EBIT) from €−7.6 million in Q3 2017 to €−6.4 million in the quarter under review. Net finance costs, at €−1.2 million, were slightly above the prior year's total of €−1.3 million.

FINANCIAL POSITION & CASH FLOWS

The ADLER Group's total assets as at 30 September 2018 amounted to € 247.0 million; this represents a € 5.9 million increase as compared to total assets as at 31 December 2017 (€ 241.1 million).

At € 4.5 million, intangible assets as at the end of the reporting period were down on the year-end 2017 figure of € 5.6 million due to lower additions.

As at 30 September 2018, property, plant and equipment totalled € 72.0 million, thereby falling € 3.0 million short of the prior-year figure (31 December 2017: € 75.0 million).

The purchase of autumn and winter merchandise increased inventories to € 92.7 million as at the end of the reporting period (31 December 2017: € 73.7 million).

Cash and cash equivalents fell to € 47.5 million due to seasonal factors (31 December 2017: € 63.3 million), yet still remained at a very good level and easily exceeded the figure of € 36.6 million as at 30 September 2017.

Equity declined from € 100.0 million as at the end of 2017 to € 84.2 million as at 30 September 2018. This was owed to ADLER, as is usual, still reporting a consolidated net loss after the first nine months of the year. The equity ratio decreased accordingly from 41.5 % (31 December 2017) to 34.1 % (30 September 2018).

Liabilities totalled € 162.8 million as at 30 September 2018 (31 December 2017: € 141.2 million). Liabilities from finance leases made up a significant portion of this item at € 55.6 million (31 December 2017: € 56.0 million). Liabilities from the customer loyalty card programme totalled € 11.3 million as at the end of the reporting period (31 December 2017: € 10.4 million). These were split from current financial liabilities for the first time in the annual financial statements for 2017 and have been reported as a separate item since that time. Trade payables rose from € 27.6 million as at 31 December 2017 to € 51.9 million as at the reporting date due to seasonal factors (30 September 2017: € 51.2 million). The debt/equity ratio climbed to 1.93 as at 30 September 2018 (31 December 2017: 1.41).

ADLER's working capital (inventories plus trade receivables less trade payables) is based on the retail business mainly from inventories less accounts payable to suppliers. An improvement in the marketing of existing merchandise made it possible to reduce working capital from € 46.7 million as at 31 December 2017 to € 41.1 million as at 30 September 2018 (30 September 2017: € 42.5 million).

CASH FLOW & CASH FLOW MANAGEMENT

An increase in the consolidated net loss for the first nine months of 2018 versus the year prior weighed on net cash flows from operating activities. These fell from € 8.3 million in the first nine months of 2017 to € −2.5 million in the period under review.

Cash flows from investing activities amounted to € −3.9 million in the first nine months of 2018. The nine-month figure from 2017 was higher at € −1.8 million, largely as a result of real estate transactions in Austria.

At €−6.4 million, the free cash flow after nine months fell significantly short of the prior-year figure of €6.4 million.

Net cash flows from financing activities totalled €−9.5 million and improved year on year (9M 2017: net cash flow of €−12.6 million). These were mostly made up of payments in connection with liabilities from finance leases. The prior-year figure of €−12.6 million includes €4.3 million from the repayment of a loan that had been taken up to acquire GBS Grundstücksverwaltungsgesellschaft, Vienna, Austria.

In the first nine months of 2018, cash decreased by a total of €−15.9 million as compared to the end of financial year 2017. Cash totalled €47.5 million as at the end of the reporting period, marking a considerable improvement over the prior-year figure of €36.6 million.

INVESTMENT

The ADLER Group's investments during the first nine months of 2018 totalled €4.0 million (9M 2017: €4.4 million). Of this figure, €3.1 million (9M 2017: €3.4 million) was attributable to property, plant and equipment (operating and office equipment) and €0.9 million (9M 2017: €1.0 million) to intangible assets.

EMPLOYEES

The employee headcount as at the end of the reporting period was reduced by 21 to 3,800 year-on-year. Expressed as FTEs, ADLER employed 2,393 staff, representing a 3.1% reduction from the 30 September 2017 figure (2,469). Despite the decrease, personnel expenses in the period under review climbed to €74.1 million as a result of increases in wages, salaries and benefits and due to holiday pay (adjusted: €73.6 million; 9M 2017: €73.1 million, adjusted: €71.2 million).

The ADLER Group had 266 trainees as at 30 September 2018, 2.2% fewer than as at the prior-year reporting date (272).

SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

Andrew Thorndike, who since 1 May 2017 had been responsible for Purchasing, Logistics, Human Resources and Technical Purchasing, left the Company's Executive Board with effect as at 30 January 2018.

The Supervisory Board of Adler Modemärkte AG appointed Carmine Petraglia as new member of the Executive Board with effect as at 1 June 2018. Mr Petraglia is responsible for Sales and E-Commerce. His term will expire on 31 December 2022.

ADLER has signed a new sourcing agent, Hermes-OTTO International, Hong Kong, as a strategic partner to replace its current suppliers, METRO Sourcing International Limited and NTS Holding, both Hong Kong, from the second quarter of 2019. Among other things, the partnership is aimed at further improving the efficiency and flexibility of procurement workflows.

RISK REPORT

Opportunities and risks may impact business development positively or negatively. ADLER employs a proven risk management- and control system to identify in advance and effectively manage the relevant opportunities and risks. ADLER's risk management is an integral part of all of the Group's decisions and business processes and thus supports the long-term protection of our Company's future success. Against this background, the Group risks are finite and manageable. Currently, there are no material risks that jeopardise the Group's long-term financial position, financial performance or cash flows.

We have detailed the specific risks and opportunities that could have material long-term effects on our financial position, financial performance or cash flows, as well as the structure of ADLER's risk management system; see pages 55 to 61 of our report on the 2017 financial year.

REPORT ON EXPECTED DEVELOPMENTS & OVERALL ASSERTION

In light of the extraordinarily hot and long summer as well as downbeat industry expectations for the holiday season, Adler Modemärkte AG had revised downward its forecast for 2018 overall as reported in the 2017 Annual Report. The management now expects revenue for the overall year to be down slightly year on year at €525.8 million; previously, it had been expected that revenue would be roughly on par with the prior-year level. EBITDA is now expected to range between €20 million and €24 million, down from €26–29 million. For the fourth quarter 2018, ADLER anticipates clearly positive earnings as well as a clearly positive free cash flow. The quality of the balance sheet structure persists to be high. Liquidity at year-end is expected to exceed last year's level of €63.3 million. As predicted, the ADLER 2020 Strategy and the already announced switch in the logistics service provider will begin to have a positive effect for the first time in financial year 2019. The company still expects EBITDA to improve by more than 50% until the year 2020 compared to the operating EBITDA 2017 of €25.4 million.

ADLER'S SHARE PRICE PERFORMANCE

The weak stock market on the whole as well as the general conditions in textile retail remaining difficult and the continued uncertainty over the future of the 52.8% block of shares held by S&E Kapital GmbH all left investors sceptical with regard to the ADLER shares in the period under review. The dynamic upward shift in January was followed by a downward trend lasting into July, before only briefly being interrupted by reports that the dividend payment would be resumed. The share bottomed out at €3.43 for the nine-month period on 3 July 2018. Once the results for the first half of 2018 were published and the full-year forecast was confirmed in mid-July, however, the share price recovered and surpassed the €4.00 mark. The shares then remained stable, trending sideways before negative industry reports pushed the price back down toward the end of the third quarter. On 28 September 2018, the ADLER shares closed at €4.00, down 31.5% from the end of 2017 (€5.84).

The DAX has lost roughly 5 % of its value since year-end 2017, and even the SDAX has lost some of the gains it had seen in the meantime. It closed out the third quarter of 2018 at the level from 28 December 2017 (−0.2 %).

Adler Modemärkte AG's Executive Board continued its proactive and candid dialogue with investors, analysts and business media in the period under review. In addition to presenting at capital market conferences in Lyon, Frankfurt and Munich, the Executive Board was also available for one-on-one meetings at a roadshow in Frankfurt.

Five research firms are currently monitoring and analysing ADLER shares on a regular basis.

Haibach, 7 November 2018

Thomas Freude	Karsten Odemann	Carmine Petraglia
Chairman of the Executive Board	Member of the Executive Board	Member of the Executive Board

CONSOLIDATED FINANCIAL STATEMENT AS AT 30 SEPTEMBER 2018

CONSOLIDATED INCOME STATEMENT

FOR THE PERIOD FROM 1 JANUARY TO 30 SEPTEMBER

€'000	1/1 – 30/9/2018	1/1 – 30/9/2017
Revenue	**360,404**	**374,186**
Other operating income	4,344	12,443
Cost of materials	–169,445	–179,248
Personnel expenses	–74,123	–73,124
Other operating expenses	–123,557	–127,617
EBITDA	**–2,377**	**6,640**
Depreciation, amortisation and write-downs	–12,353	–12,309
EBIT	**–14,730**	**–5,669**
Other interest and similar income	6	5
Interest and similar expenses	–3,767	–3,995
Net finance costs	**–3,761**	**–3,990**
Net income from operations	**–18,491**	**–9,659**
Income taxes	3,763	2,622
Consolidated net loss for the period	**–14,728**	**–7,037**
of which attributable to shareholders of Adler Modemärkte AG	**–14,728**	**–7,037**
Earnings per share* (continuing operations)		
Basic in EUR	–0.80	–0.38
Diluted in EUR	–0.80	–0.38

* *As in the prior-year period, earnings per share were calculated on the basis of the weighted average of existing shares in the period from 1 January 2018 to 30 September 2018 in the amount of 18,510,000 shares.*

CONSOLIDATED INCOME STATEMENT

FOR THE PERIOD FROM 1 JULY TO 30 SEPTEMBER

€'000	1/7 – 30/9/2018	1/7 – 30/9/2017
Revenue	**117,320**	**120,153**
Other operating income	1,169	1,335
Cost of materials	−58,276	−59,711
Personnel expenses	−24,190	−23,127
Other operating expenses	−38,431	−42,248
EBITDA	**−2,407**	**−3,597**
Depreciation, amortisation and write-downs	−4,031	−3,977
EBIT	**−6,438**	**−7,574**
Other interest and similar income	0	0
Interest and similar expenses	−1,237	−1,269
Net finance costs	**−1,237**	**−1,269**
Net income from operations	**−7,675**	**−8,843**
Income taxes	1,902	2,585
Consolidated net loss for the period	**−5,773**	**−6,258**
of which attributable to shareholders of Adler Modemärkte AG	**−5,773**	**−6,258**
Earnings per share* (continuing operations)		
Basic in EUR	−0.31	−0.34
Diluted in EUR	−0.31	−0.34

* *As in the prior-year period, earnings per share were calculated on the basis of the weighted average of existing shares in the period from 1 July 2018 to 30 September 2018 in the amount of 18,510,000 shares.*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD FROM 1 JANUARY TO 30 SEPTEMBER

€'000	1/1 – 30/9/2018	1/1 – 30/9/2017
Consolidated net loss for the period	**−14,728**	**−7,037**
Currency translation gains from foreign subsidiaries	−110	167
Remeasurement of defined benefit pension entitlements and similar obligations	0	131
Deferred taxes	0	−39
Items that will not be recycled to the income statement going forward	**−110**	**259**
Change in fair value of available-for-sale financial instruments	−4	11
Deferred taxes	0	0
Items that may subsequently be recycled to the income statement	**−4**	**11**
Other comprehensive income	**−114**	**270**
Consolidated total comprehensive income	**−14,842**	**−6,767**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD FROM 1 JULY TO 30 SEPTEMBER

€'000	1/7 – 30/9/2018	1/7 – 30/9/2017
Consolidated net loss for the period	**−5,773**	**−6,258**
Currency translation gains from foreign subsidiaries	−73	124
Remeasurement of defined benefit pension entitlements and similar obligations	0	0
Deferred taxes	0	0
Items that will not be recycled to the income statement going forward	**−73**	**124**
Change in fair value of available-for-sale financial instruments	1	4
Deferred taxes	0	0
Items that may subsequently be recycled to the income statement	**1**	**4**
Other comprehensive income	**−73**	**128**
Consolidated total comprehensive income	**−5,846**	**−6,129**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2018

ASSETS €'000	30/9/2018	31/12/2017
Non-current assets		
Intangible assets	4,512	5,581
Property, plant and equipment	72,023	74,975
Investment property	413	413
Other non-current receivables and assets	255	277
Deferred tax assets	11,196	7,398
Total non-current assets	**88,398**	**88,644**
Current assets		
Inventories	92,726	73,676
Trade receivables	280	635
Other current receivables and assets	17,867	14,550
Available-for-sale financial assets	281	286
Cash and cash equivalents	47,466	63,342
Total current assets	**158,620**	**152,489**
TOTAL ASSETS	**247,018**	**241,133**

EQUITY AND LIABILITIES €'000	30/9/2018	31/12/2017
CAPITAL AND RESERVES		
Subscribed capital	18,510	18,510
Capital reserves	127,408	127,408
Accumulated other comprehensive income	−2,200	−2,085
Negative retained earnings	−59,539	−43,886
Total equity	**84,179**	**99,947**
LIABILITIES		
Non-current liabilities		
Provisions for pensions and similar obligations	5,237	5,493
Other non-current provisions	1,335	1,309
Non-current financial liabilities	2,029	2,267
Liabilities from finance leases	48,751	50,233
Other non-current liabilities	5,095	5,359
Deferred tax liabilities	76	75
Total non-current liabilities	**62,522**	**64,737**
Current liabilities		
Other current provisions	3,301	4,366
Liabilities from the customer loyalty card programme	11,266	10,380
Current financial liabilities	3,660	316
Liabilities from finance leases	6,822	5,718
Trade payables	51,930	27,608
Other current liabilities	19,487	24,250
Current income tax liabilities	3,852	3,810
Total current liabilities	**100,317**	**76,449**
Total liabilities	**162,839**	**141,185**
TOTAL EQUITY and LIABILITIES	**247,018**	**241,133**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD FROM 1 JANUARY TO 30 SEPTEMBER 2018

	Subscribed capital	Capital reserves	Accumulated other comprehensive income			Negative retained earnings	Total equity
€'000			Securities	Currency translation	Other changes*		
As at 1 Jan. 2018	**18,510**	**127,408**	**22**	**72**	**−2,180**	**−43,886**	**99,947**
Dividend payment	0	0	0	0	0	−926	−926
Consolidated net loss for the period	0	0	0	0	0	−14,728	−14,728
Other comprehensive income	0	0	−4	−110	0	0	−114
Consolidated total comprehensive income	0	0	−4	−110	0	−14,728	−14,842
As at 30 Sep. 2018	**18,510**	**127,408**	**18**	**−38**	**−2,180**	**−59,539**	**84,179**

* *Other changes relate to actuarial gains and losses less deferred taxes.*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD FROM 1 JANUARY TO 30 SEPTEMBER 2017

	Subscribed capital	Capital reserves	Accumulated other comprehensive income			Negative retained earnings	Total equity
€'000			Securities	Currency translation	Other changes*		
As at 1 Jan. 2017	**18,510**	**127,408**	**14**	**−159**	**−2,191**	**−47,743**	**95,839**
Dividend payment	0	0	0	0	0	0	0
Consolidated net loss for the period	0	0	0	0	0	−7,037	−7,037
Other comprehensive income	0	0	11	167	92	0	270
Consolidated total comprehensive income	0	0	11	167	92	−7,037	−6,767
As at 30 Sep. 2017	**18,510**	**127,408**	**25**	**8**	**−2,099**	**−54,780**	**89,072**

* *Other changes relate to actuarial gains and losses less deferred taxes.*

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE PERIOD FROM 1 JANUARY TO 30 SEPTEMBER 2018

€'000	1/1–30/9/2018	1/1–30/9/2017
Consolidated net loss for the period before taxes	**−18,491**	**−9,659**
Depreciation (+) of property, plant and equipment and amortisation of intangible assets	12,236	12,309
Impairment	117	
Increase (+)/decrease (–) in pension provisions	−256	−272
Gains (–)/losses (+) from the sale of non-current assets	8	−7,114
Gains (–)/losses (+) from currency translation	−132	221
Other non-cash expenses (+)/income (–)	2,344	877
Net interest income	3,761	3,990
Interest income	6	5
Interest expense	−179	−216
Income taxes paid	−95	−1,110
Increase (–)/decrease (+) in inventories	−21,249	−18,544
Increase (–)/decrease (+) of trade receivables and other receivables	−3,027	−7,294
Increase (+)/decrease (–) of trade payables, other liabilities and other provisions	22,521	31,633
Increase (+)/decrease (–) in other items of the statement of financial position	−46	3,435
Cash from (+)/used (–) in operating activities (net cash flow)	**−2,482**	**8,261**
Payments received/Proceeds from disposals of non-current assets	150	10,225
Prepayments/Payments for investments in non-current assets	−4,046	−5,386
Payments in connection with the acquisition of subsidiaries	0	−6,671
Cash from (+)/used (–) in investing activities	**−3,896**	**−1,833**
Free cash flow	**−6,378**	**6,429**
Payments in connection with the repayment of loan liabilities	−237	−4,459
Dividend distribution	−926	0
Payments in connection with finance lease liabilities	−8,336	−8,166
Cash from (+)/used (–) in financing activities	**−9,498**	**−12,625**
Net decrease (–)/increase (+) in cash and cash equivalents	**−15,876**	**−6,197**
Cash and cash equivalents at beginning of period	63,342	42,773
Cash and cash equivalents at end of period	47,466	36,577
Net decrease (–)/increase (+) in cash	**−15,876**	**−6,197**

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2018

PRELIMINARY REMARKS

Adler Modemärkte AG is a corporation (Kapitalgesellschaft) in accordance with German law with its registered office at Industriestraße Ost 1 – 7, Haibach, Federal Republic of Germany. The relevant registration court is located in Aschaffenburg (registered under Number HRB 11581).

The ADLER Group (Adler Modemärkte AG and its subsidiaries) is engaged in apparel retailing and operates specialist clothing stores in Germany, Luxembourg, Austria and Switzerland. Under the trade name "ADLER", the Group operates specialist clothing stores on a stand-alone basis, as part of specialist store or shopping centres, or together with other retailers at locations operated jointly. The range of goods offered by the ADLER stores includes womenswear, menswear and kidswear.

The euro (EUR) is both the reporting currency and the functional currency of the ADLER Group. Unless stated otherwise, the figures in the notes to the consolidated financial statements are quoted in thousands of euros (€'000).

In its role as the ADLER Group's holding company, Adler Modemärkte AG assumes Group-wide responsibilities for all of its subsidiaries. In particular, these include procuring goods, marketing, providing IT infrastructure, financial accounting, audits, controlling and legal.

S&E Kapital GmbH, Munich, prepares the consolidated financial statements for the largest group of companies. These financial statements can be obtained at the Company's registered office in Munich. Adler Modemärkte AG, Haibach, prepares the consolidated financial statements for the smallest group of companies. These financial statements can be obtained at the Company's registered office in Haibach.

NOTES ON THE BASES AND METHODS EMPLOYED IN THE CONSOLIDATED FINANCIAL STATEMENTS

ACCOUNTING POLICIES

The consolidated financial statements of Adler Modemärkte AG were prepared in accordance with the requirements of the International Accounting Standards Board (IASB), London, in conformity with International Financial Reporting Standards (IFRSs), as adopted by the EU. The interpretations issued by the IFRS Interpretations Committee (formerly the International Financial Reporting Interpretations Committee and the Standing Interpretations Committee) were also applied. Accordingly, these consolidated interim financial statements as at 30 September 2018 were prepared in accordance with IAS 34 "Interim Financial Reporting". Depreciation and amortisation, additions to provisions for pensions and interest payments are recognised as an expense in the period to which they relate during the year. Income and expenses in connection with taxes on income were determined on the basis of actual tax calculations.

Those International Financial Reporting Standards (IFRSs) were applied that had become mandatory by the end of the reporting period on 30 September 2018.

IFRS 9 and IFRS 15 were applicable for the first time as at the end of the reporting period, although this did not have any material effect on the net assets, financial position and results of operations of Adler Modemärkte AG.

In the textile retail industry, proceeds from the sale of goods are recognised at the time of sale to the end customer. The transaction price is to be paid immediately upon receipt of the goods by the customer. ADLER generally allows end customers to return products within 14 days of the sale. Refund liabilities (reported in other liabilities) and right of return for the goods (reported in inventories) are recognised accordingly for the returned products. These are determined on the basis of returns after the reporting date.

Liabilities from refunds to customers relating to returned goods were remeasured due to the first-time application of IFRS 15 “Revenue from Contracts with Customers”. This resulted in a year-on-year decrease in revenue and a corresponding increase in liabilities from refunds to customers in the amount of € 494 thousand. The cost of materials declined by € 219 thousand, with inventories increasing by the same amount.

IFRS 15 did not have any impact on gross profit or cash flows. No further areas of application of IFRS 15 were identified. Consequently, it was not necessary to retrospectively adjust the prior-year figures, which remained at the same level.

IFRS 9 replaces the requirements of IAS 39 relating to the recognition, classification and measurement of financial assets and financial liabilities as well as the derecognition of financial instruments, the impairment of financial assets, and hedge accounting.

Under the standard, financial instruments are impaired on the basis of the expected loss model. As at the first-time application, the 12-month expected credit losses are generally recognised. All appropriate and reliable information available as at the reporting date and relevant for estimating the expected credit losses must be taken into account. If the credit risk deteriorates significantly, a loss allowance for full lifetime expected credit losses must be recognised from this point forward. This version also introduces a third measurement category of fair value through other comprehensive income for certain debt instruments on the assets side of the balance sheet. To be classified as such, (1) the instruments must fulfil the cash flow criterion and (2) the business model must allow for both the holding and selling of the instruments. The amendments to IFRS 9 “Financial Instruments” cover the changes in the classification requirements for financial assets. Under certain circumstances, financial assets with negative compensation may be measured at amortised cost or at fair value through other comprehensive income instead of at fair value through profit or loss.

ADLER analysed the changes arising from the first-time application of IFRS 9 on the accounting of financial instruments. The changes relate primarily to receivables from credit card institutions and lease receivables, which will need to be written down in individual cases. The analysis of the receivables did not give rise to any material 12-month expected credit losses. In light of the short terms and credit quality of the financial assets, the standard does not have any further effects on Adler Modemärkte AG’s accounting.

In its consolidated financial statements as at 31 December 2017, ADLER had expected the change in the accounting of lease agreements from IFRS 16, effective 1 January 2019, to bring about increases in non-current assets, in particular property, plant and equipment, and in liabilities from finance leases of between € 100 million and € 150 million. It also expected this to contribute to an improvement in EBITDA by € 25 – 35 million due to other operating expenses (lease/rent expenses) being reclassified to depreciation, amortisation and write-downs and net finance costs (interest expense). In light of new findings, especially with regard to altered assumptions concerning applicable interest rates and lease extensions, non-current assets and liabilities from finance leases are now expected to climb by € 180 – 230 million and the reclassification of other operating expenses to depreciation, amortisation and write-downs and net finance costs is now expected to yield an increase of € 45 – 50 million.

There was no early adoption of standards whose application had not yet become mandatory as at 30 September 2018.

The notes to the 2017 consolidated financial statements apply accordingly in particular with respect to the significant accounting policies adopted.

GROUP OF CONSOLIDATED COMPANIES/SHAREHOLDINGS

The consolidated financial statements include Adler Modemärkte AG as well as four German and four foreign subsidiaries. These subsidiaries are listed in the table below.

Name, registered office	Shareholding in %	Currency	Subscribed capital/limited partnership capital in local currency
Adler Modemärkte Gesellschaft m.b.H., Ansfelden/Austria	100	€'000	1,500
ADLER MODE S.A., Foetz/Luxembourg	100	€'000	31
Adler Mode GmbH, Haibach	100	€'000	25
Adler Mode AG Schweiz, Zug/Switzerland	100	CHF '000	100
Adler Orange GmbH & Co. KG, Haibach	100	€'000	4,000
Adler Orange Verwaltung GmbH, Haibach	100	€'000	1,040
A-Team Fashion GmbH, Munich	100	€'000	25
GBS Grundstücksverwaltungsgesellschaft m.b.H., Vienna, Austria	100	€'000	37

Due to the fact that the Group holds 100 % of shares in the subsidiaries, there are no minority (non-controlling) interests.

ALASKA GmbH & Co. KG, Pullach im Isartal, in which the Group holds no interest, has also been included in the consolidated financial statements as a structured entity in accordance with IFRS 10 on the basis of a rental agreement with Adler Modemärkte AG, Haibach (relating to an administration building).

Adler Modemärkte Gesellschaft m.b.H., Ansfelden, Austria, acquired GBS Grundstücksverwaltungsgesellschaft m.b.H., Vienna, Austria, on 3 May 2017, with effect as at the end of 30 April 2017.

OTHER NOTES

SEASONAL EFFECTS

The Group's revenue is subject to seasonal fluctuations. For example, revenue and earnings in the third and particularly the fourth quarter are higher than in the other quarters due to the sale of winter merchandise with a higher average selling price for each product.

EARNINGS PER SHARE

There were 18,510,000 existing shares during the period under review. The weighted average of existing shares amounted to 18,510,000 shares (30 September 2017: 18,510,000 shares).

Earnings per share amounted to €−0.80 as at 30 September 2018 (30 September 2017: €−0.38).

Shares bought back during a period are taken into account on a pro-rated basis for the period in which they are in circulation. There are no dilutive effects at the present time.

MATERIAL TRANSACTIONS

There were no material transactions in the reporting period.

SEGMENT REPORTING

30 September 2018 (€'000)	Stores segment	Reconciliation with IFRS	ADLER Group
Total revenue (net)	360,211	193	360,404
EBITDA	−11,456	9,079	−2,377

30 September 2017 (€'000)	Stores segment	Reconciliation with IFRS	ADLER Group
Total revenue (net)	373,943	243	374,186
EBITDA	−1,164	7,804	6,640

The reconciliation contains differences from various account allocations for internal control purposes and differences arising between national accounting standards and IFRSs.

Where revenue and other operating income is concerned, these differences mainly concern customer discounts and IFRS 15 "Revenue from Contracts with Customers", which has been applicable since 1 January 2018. The differences relating to cost of materials, logistics services, inventory measurements, personnel expenses and other operating expenses stem primarily from differences in account allocations and the accounting treatment for leases and pension provisions under German commercial law (HGB) and IFRSs. Depreciation, amortisation and write-downs under IFRSs include amortisation and write-downs on finance leases and useful lives that in some cases deviate from the useful lives under HGB.

GBS Grundstücksverwaltungsgesellschaft m.b.H., Vienna, Austria, is not included in the segment reporting since it does not conduct operations.

Non-current assets, defined as intangible assets, property, plant and equipment and investment property, are broken down by region as follows:

	30 September 2018			31 December 2017		
€'000	Germany	International	Group	Germany	International	Group
Non-current assets	64,447	12,500	76,947	67,624	13,345	80,970

RELATED PARTY DISCLOSURES

Since 25 April 2013, Adler Modemärkte AG has been an affiliated company of S&E Kapital GmbH, Munich, and indirectly an affiliated company of Steilmann Holding AG, Munich i.I. Steilmann Holding AG i.I. and its subsidiaries are thus to be considered related parties.

Transactions with related parties are contractually regulated and carried out at arm's length prices.

The following transactions were entered into with related parties:

Goods and services were purchased from the Steilmann Group for € 24.8 million in the first nine months of 2018 (9M 2017: € 21.8 million). These mainly included goods and services from NTS Holding Ltd., Hong Kong. Trade payables/services to related parties of the Steilmann Group amounted to € 6.7 million, primarily in connection with the operating business with NTS Holding Ltd., Hong Kong (30 September 2017: € 5.8 million).

Goods amounting to € 13.7 thousand were procured from Elan PVT Limited, Hong Kong, in the reporting period (9M 2017: € 500 thousand). The company is associated with a member of the Supervisory Board and is therefore treated as a related party in accordance with IAS 24. There were no outstanding liabilities to Elan PVT Limited, Hong Kong, for deliveries of goods as at the reporting date (30 September 2017: € 101 thousand).

Remuneration for members of the Supervisory Board in their function as employees amounted to € 206 thousand in the reporting period (9M 2017: € 188 thousand).

For information relating to the remuneration of the Executive Board, please refer to the details given in the consolidated financial statements as at 31 December 2017.

MATERIAL EVENTS AFTER THE END OF THE REPORTING PERIOD

There were no material events after the end of the reporting period from 1 January to 30 September 2018.

GERMAN CORPORATE GOVERNANCE CODE

The current version of the Declaration of Conformity with the German Corporate Governance Code pursuant to § 161 of the German Stock Corporation Act (Aktiengesetz, "AktG") can be found on the Company's website at *www.adlermode.de*.

Haibach, 7 November 2018

Thomas Freude	Karsten Odemann	Carmine Petraglia
Chairman of the Executive Board	Member of the Executive Board	Member of the Executive Board

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